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Zapatero Previews 15 Billion Euro Tax Increase

1.(U) Appearing before Parliament on September 9, President Zapatero said the GOS' proposed 2010 budget would impose tax increases equal to 1.5 percent of Spain,s GDP. He said that the "moderate rise" in taxes was needed to "guarantee sufficient capacity to meet the needs of providing social protection (unemployment benefits) and investing in infrastructure." He did not specify which taxes would be increased but again assured that taxes on earned income would not be among them. The GOS expects the 2009 budget deficit will be 9.5 percent of GDP (Note: financial analysts predict that it will surpass 10%). Zapatero argued that the increase would bring tax revenues as a share of GDP only to the level he inherited upon taking office in 2004 and would remain below the European average. Opposition leader and PP President Rajoy criticized the proposal, calling the tax hikes "counterproductive" and suggesting that increases will only create more unemployment. Other parties, legislators were also critical. (All Media, 9/10)

GM Decision to Sell Opel Likely to Cost 1,700 Spanish Jobs

2.(U) Spanish press reports suggest that GM's decision to sell a controlling stake in Opel to the Canadian/Russian consortium led by Magna likely will cost 1,700 of the 7,500 jobs at Opel's Figueruelas plant in Zaragoza. Union leaders reacted negatively to the September 10 announcement of the decision, as they favored a competing bid by RHJ that was expected to cost the plant only around 1,000 jobs. A number of steps remain before the deal can be completed. (All Media, 9/11)

GDP Revision Shows Recession Started Earlier

3.(U) Revised GDP figures from the National Statistics Institute show that Spain,s recession began in the second

quarter of 2008, not the third quarter as previously reported. Instead of growing by 0.1% in the quarter, GDP fell by 0.02%. The revised figures showed that full-year 2008 growth was 0.9%, down from the previously reported 1.2%.

Comment: While the practical impact of the difference in growth between 0.1% and negative 0.02% was very small, the revision may give the opposition more ammunition and further damage the government's credibility, as it shows that the recession had already begun at a tQ'PQ_H% 0.8% below that of August 2008. Comment: Annual inflation rates are expected to remain negative for a few more months while they still include the impact of the late-2008 oil price decline. Underlying inflation (not including energy or food prices, which are more volatile) remains low but positive. (EXPANSION)

GOS, Cities to Plug In Electric Vehicles

5.(U) Industry and Trade Minister Sebastian, along with the mayors of Madrid, Barcelona, and Seville, rolled out on September 8 the "Movele" electric car project, which will make the three cities Spain's first to have significant numbers of electric vehicles. The project has budgeted 8 million euros for purchase grants for 2,000 vehicles by the end of 2010. Grants will range from 750 to 20,000 euros for each vehicle from a catalog the GOS has prepared. The grants are intended to cover 15-20% of the vehicles' cost. While the project originally was aimed at government and corporate fleets (see ref B), we understand that individual purchasers

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will be eligible for the grants as well. The project also will fund infrastructure development -- a total of 546 charging points will be established in the three cities -- and technical assistance. The vehicles are expected to save 2,700 tons of oil per year and reduce CO2 emissions by 4,400 tons. Minister Sebastian said that electric vehicles would be addressed in the sustainable economy legislation the GOS will soon propose. He added that the GOS will use its EU presidency in the first half of 2010 to promote the implementation of electric and hybrid cars in the EU market. Spain currently has no domestic suppliers of electric vehicles or their components but is competing with Norway and the UK to attract an electric car plant planned by the Indian company Tata Motors. (El Pais, 9/9; www.IDAE.es)
CHACON